



*Changing Energy Markets in the
Midwest: Emergence of the
Independent Transmission Company*
presentation to
Federal Utility Partnership Working Group
American Transmission Company LLC
The Energy Access Company
March 8, 2001

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What is occurring in Electric Industry?

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Industry Trends and Policies

- Separation of regulated from competitive portions of business
- Alignment of business incentives with regulatory policies
- Promotion of divestiture of transmission into large, transmission-only entities
- Promotion of construction to eliminate key congestion points

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Role in the Industry of
Transmission-Only Company

- Promote more equitable and efficient electric markets to reduce total electric cost
- Encourage development of expanded transmission services to meet needs of market participants
- Encourage divestiture of transmission assets and independence of transmission operations to align internal transmission business incentives with industry policies
- Restore strategic value to the transmission business

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Obstacles to Construction in
Traditional Utility Structure

- Public opposition
- Difficulty permitting across state lines
- Cannot recover on transmission investments from all users in the benefited area
- Potential conflict of interest for an integrated utility transmission owner

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Business Case for a
Transmission-Only Company

- Basic business follows fully regulated cost-plus model
- Greater focus on transmission customers will help identify enhanced services of value to the customers and open opportunities for greater earnings for transmission owners
- Market (not regulatory) valuation of transmission assets
- Ownership options: LLC membership with future conversion to stock
- Tax free transfer of assets to the LLC

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Business Case (continued)

- Greater ability to build the necessary transmission enhancements
 - Will recover transmission investments from a larger customer base benefiting from new assets, not just the native customers of the integrated transmission owner
 - (Hopefully) More siting and public relations expertise due to a larger number of transmission projects and focus on this element

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Who is ATC?

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Background

- Wisconsin legislation passed October 1999 promoted the formation of a transmission-only company with the intent:
 - Enhance transmission reliability and promote a more competitive electricity market
 - Establish a single, integrated transmission system in and around Wisconsin, owned, operated, maintained and constructed by a single entity
 - Voluntary, but prerequisite *quid pro quo* for asset cap relief for utility holding companies

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Description

- “For-profit,” investor owned, public utility
- Regulated by FERC (tariffs) and state regulators (siting, etc.)
- Barred from distribution, generation and marketing of electricity
- Member of the Midwest ISO

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Initial Company Ownership

- Initially, ATC will be a closely held company owned by the participating entities -- not an “independent” transmission company.
- Participants will own “shares” of the company in proportion to their contribution

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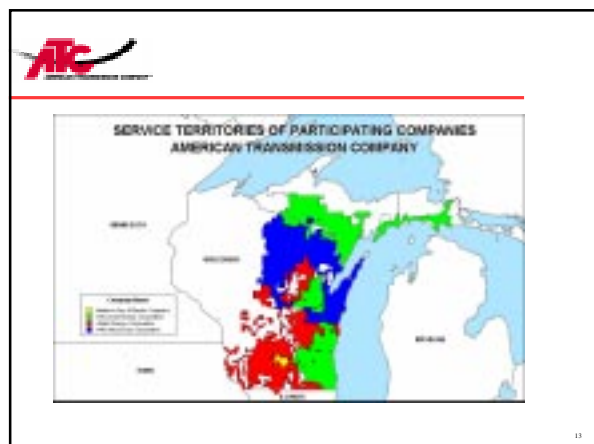


Major Participating Companies*

- Alliant Energy - WPL & South Beloit
- Madison Gas & Electric
- Wisconsin Electric & Edison Sault
- Wisconsin Public Service
- Wisconsin Public Power Inc.

*Note: These companies each own more than 5% of ATC and thus qualify as “affiliates”. They will each be represented on the Board.

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Company Structure

- Limited Liability Company with a corporate managing partner
- ATC LLC:
 - Holds assets
 - Minimizes tax impact of contribution and of revenue distribution
 - Can allow long-term passive ownership
 - Owned in proportion to contributions

Company Structure (Continue)

- ATC Management Inc.
 - Manages LLC
 - Employs officers and staff
 - Initially a minimally capitalized company owning a minute share of ATC LLC
 - Initially owned in same proportions as LLC
 - Vehicle for public ownership through transition to stock-held corporation
 - Viable exit strategy for asset contributors

ATCLLC Capital Structure

- Assets are contributed at net book value.
- Initial structure (\$525M estimated) will be at 100% equity.
- Shortly after initial operation, ATC will make debt offering to achieve approximately 50% debt, 50% equity structure
- Proceeds of debt offering will be returned *pro rata* to the contributors such that each receives in cash approximately 50% of the net book value of the assets it contributed

Estimated Ownership Data

Entity	Type	Equity	Share
Adams Columbia	Coop	\$ 2,970,434	0.57%
Algoma	Muni - WPP	\$ 152,964	0.03%
Alliant	IDU	\$ 127,373,491	24.29%
Badger Power	MEC	\$ 850,000	0.16%
Central Wisconsin	Coop	\$ 656,564	0.13%
Kaukaune	Muni - WPP	\$ 1,200,000	0.23%
Marathon Public Utility	Muni	\$ 3,000,000	0.57%
Marshfield	Muni	\$ 2,732,295	0.52%
Mendota	Muni - WPP	\$ 2,362,362	0.45%
MGE	IDU	\$ 26,414,594	5.04%
Oconto Falls	Muni	\$ 200,000	0.04%
Plymouth	Muni	\$ 1,468,972	0.28%
Reedsburg	Muni	\$ 1,000,000	0.19%
Rock County	Coop	\$ 524,435	0.10%
Sheboygan Falls	Muni	\$ 512,955	0.10%
Sturgeon Bay	Muni - WPP	\$ 1,678,630	0.30%
Sun Prairie	Muni - WPP	\$ 3,000,000	0.57%
WE	IDU	\$ 252,238,078	48.10%
West Wisc Muni Pwr Gp	MEC	\$ 300,000	0.06%
Wisconsin Rapids	Muni	\$ 1,822,193	0.35%
WPP	MEC	\$ 30,024,647	5.73%
WPS	IDU	\$ 64,052,162	12.21%
Total:		\$ 524,434,776	100.00%

Company Governance

- The initial board of directors will be composed of investor representative directors and four outside directors
- One director/One vote
- Expect an IPO three years after operations
- Governance will transition to traditional owner-elected board



How will ATC Operate?

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Control Center Operation

- Initially, ATC will direct the operation of its transmission system from existing control centers, using ATC employees and contract personnel from the utilities contributing assets to the ATC transmission system, keying on:
 - Continuity of quality service
 - Effective emergency response
 - No “bumps in the road” during transition

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Control Center Operation

- Ultimately, ATC will direct the operation of its transmission system, using ATC personnel, from at least two centralized control centers, each of which will have the capability to operate the entire ATC transmission system. The two centers will back each other up.
- ATC’s key operating principle will be to minimize risk to customer service

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Field Operation & Maintenance

- ATC will contract with the utilities contributing their transmission assets to perform field operation and maintenance activities for a period of 3 years.
- These contracts allow for smooth transition of operating and associated functions.

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How will ATC make money?

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Two types of transmission customers

- “Point-to-Point” customers pay on a per-transaction basis with flexible terms (including price, “firmness” and other options)
- “Network” customers pay a pro-rata share of the cost of the transmission network and receive a firm commitment that network transactions (between designated network resources and network load) will be served

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Point-to-Point Service Requests

- Point-to-Point Customer
 - Authorize only if adequate transmission capacity available
 - Can offer available redispatch, but customer pays costs

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Network Service Requests

- Network Customer
 - Customer must designate network resource to serve network load
 - ATC will evaluate available transfer capability between resource and load
 - ATC will utilize available redispatch as necessary to fulfill request
 - Costs of redispatch are borne by all ATC network customers on load-share ratio

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Network Customer Base

- 95% of revenues are from “network transmission service”; i.e., native load of the founding utilities
- Network service is neither weather-sensitive nor recession-sensitive
 - Invoices based on prior year’s usage
 - Usage ratios (“Load Ratio Share”) typically oscillates over a narrow range

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Point-to-Point Customer Base

- Volatile component of revenue stream
- Estimated 5% of annual revenues
- Sensitive to weather and generation-related outages
- ATCLLC is incented to expand these services, since rate level not reset until subsequent June 1. Cash flow benefit.
- Opportunistic sales help drive facility needs

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How will ATC grow?

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ATC is designed to grow

- When it begins operations, ATC will own and operate assets in Wisconsin, Michigan and Illinois and provide control center services under contract to assets in Iowa.
- LLC structure allows contribution of assets by transmission owners of any type (IOU, cooperative or municipally-owned).
- Current regulatory policy requires transmission owners to reassess plan for transmission assets.
- ATC has already received an unsolicited request to bid on the assets of another major Midwest utility.

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Participation by Transmission-Dependent Entities

- Transmission-dependent utilities or retail electric coops in Wisconsin may invest
 - Maximum ownership proportional to 1999 load-share ratio in Wisconsin
 - Transmission assets may be contributed at net book value with an option to “purchase-up” to load-share ratio ownership percentage

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Municipal Electric Companies and Member Utilities

- If a municipal electric company’s owner/members have authorized it to invest based on total load served, individual members may not invest based on their load.
- Members may contribute incidental transmission assets at net book value.

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Wholesale Electric Coops and Member Retail Coops

- Wholesale coops with a transmission tariff and their owner/members may participate through contribution of transmission assets at net book value

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Bigger is Better

- Enhanced operations
- Greater choice of options to resolve constraints
- Improved financing of required additions
 - Greater financial ability
 - Improved ability to collect from benefited customers
- Greater ability to develop and provide new services of enhanced value to customers

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Regulatory Environment and Strategies

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Electric Transmission Under Current Regulatory Policies

- Federal Energy Regulatory Commission (FERC) policy promotes structural changes in transmission to accommodate effective wholesale competition in the electric industry
 - FERC Order No. 888/889 (4/96) required the functional unbundling of vertically integrated utilities
 - Order No. 2000 (12/99) promotes structural unbundling
 - Encouragement of separate transmission companies
 - Comprehension of financial risks
 - Liberalization of discounted cash-flow methodology
 - Consideration of shorter depreciation lives for book (rate) purposes

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FERC Regulatory Policies *continued*

- Recognition of need for transmission plant construction in U.S.
- Encouragement of rate policies where customers and shareholders benefit
- Willingness to consider performance-based ratemaking
- Still evolving; case-by-case consideration

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Rate Relief

- ATCLLC has proposed a rate scheme familiar to FERC and approved previously
- Cost of service based on prior year's costs
- Changes to rates are automatic; no FERC rate investigation is expected once the formulae are accepted
- Capital adder provision proposed to minimize the normal "regulatory lag"

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Other tariff points

- ATC will be the ancillary services provider of last resort, and contract for those services
- ATC will assume the prior transmission service commitments of the asset-contributing utilities
- ATC will not own any generation, but will contract for generation services for redispatch and for must-run generating units

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Succeed Through Size

- Larger asset base increases profits
- Alignment of need for expanded transmission infrastructure with ATCLLC ability to construct, own, operate and maintain
- Single-purpose company doesn't bring sales monopoly baggage to CPCN hearings
- Concentrated expertise in project proposal, public relations, and regulatory advocacy

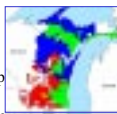
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Relation of ATC and MISO

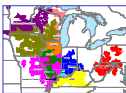
ATC

- Start-up: Jan. 1, 2001
- Assumes ownership of assets
- Designs, builds, operates and maintains assets
- Single rate zone under MISO tariff
- Local transmission planning
- Able to perform all functions. Does so until MISO operational.
- Opportunity to grow into large regional entity and transition into independent transmission company and RTO



MISO

- Start-up: Nov. 1, 2001
- Owns no assets
- Provides broad, regional oversight of transactions
- Directs operations
- Single zonal tariff, no rate "pancaking"
- Regional transmission planning
- Request for withdrawal by key members brings future of MISO into question.



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Network Integration Transmission Service (NITS)

- Transmission Provider- Provide reliable, least cost sufficient transmission capacity to deliver Network customers resources to serve its network load.
- Eligible customer signs a service agreement pursuant to Part III of ATC's tariff.
 - Description of network load at each delivery point
 - Amount and location of any interruptible loads
 - Description of network resources
 - Description of transmission system
- Network Customer pays for direct assignment, ancillary services
 - Monthly demand charge (reflects load ratio share)
 - Redispatch charges
- Approximately 95% of revenues are from network service

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Point-to-Point Transmission Service

- Transmission Provider- Provide firm and non-firm service for the receipt of capacity and energy at designated points of receipt and the transmission of such capacity and energy to designate points of delivery.
- Minimum term is one day (firm), one hour (non-firm)
- Reservations for long-term from point-to-point service shall be on a first-come, first-served basis
- Reservations for a short-term firm point-to-point service will be conditional based upon length of request

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Questions and Answers

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